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March 29, 2011

Dr. George Diehr
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Fund Policy Benchmarks

Dear Dr. Diehr:

You have requested our thoughts regarding the proposal by Staff to alter a number of benchmarks.

Recommendation

Wilshire recommends approval of the agenda item for all proposed benchmark changes. Comments regarding some specific asset classes are below.

Discussion

As part of the asset allocation review held over the course of 2010, the roles of Infrastructure and Timberland were redefined from the Inflation Linked Asset Class to the Real Asset Class. As a result, the benchmarks for both asset classes were changed to reflect the new investment approaches for both asset classes going forward. The Timberland-specific benchmark aligns future timber investments more closely with industry performance than inflation-outperformance. For Infrastructure, in lieu of an infrastructure-specific benchmark, the reduction in performance target reflects the lower assumptions in use throughout the asset allocation process.

Since RMARS will be separated from Global Equities structurally going forward, we also agree with the assignment to RMARS of its own benchmark and the change to make the benchmark for Global Equities no longer contain the RMARS subcomponent.

Please let us know if you have any questions or comments.

Best regards,

